

# FDIC State Profile

Winter 2005

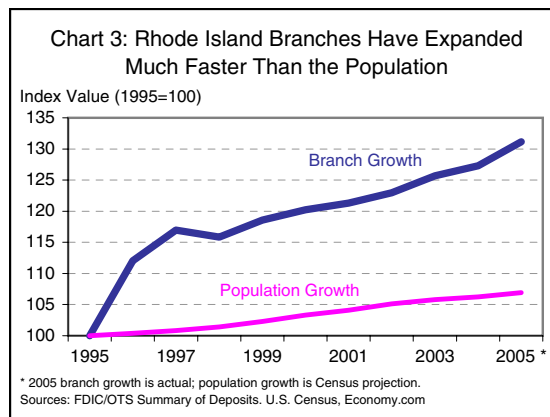
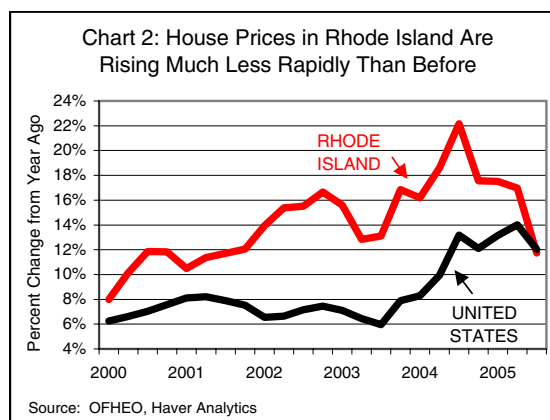
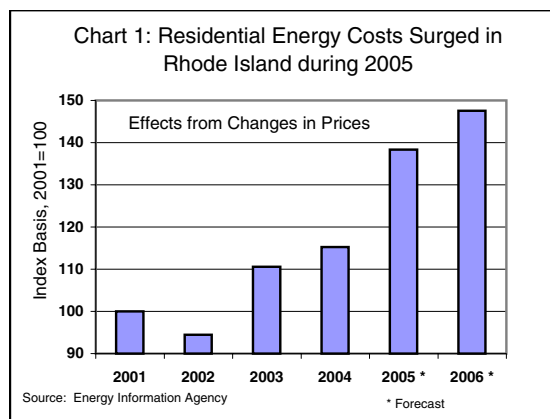
## Rhode Island

**Higher energy prices have affected Rhode Island households, and prices are expected to remain elevated in 2006. Employment growth is moderate.**

- Prices of all energy products rose rapidly in 2005 as Gulf coast storms disrupted supplies of crude oil and natural gas across the United States. Nationally, retail prices of heating oil for calendar year 2005 are expected to average almost one-third more than a year earlier, and 2006 prices are expected to increase by an additional 10 percent.
- Costs of energy sources are generally more expensive in Rhode Island as the state has few indigenous energy resources to replace disrupted supplies. Energy costs are expected to average one-fifth higher in 2005 than in 2004 and to rise further in 2006 (see Chart 1).
- As a result, spending on residential energy in Rhode Island may be over 5 percent of disposable income in 2005, with lower income households impacted most by higher prices.<sup>1</sup>
- However, these increasing energy costs may affect a moderately growing economy. Over the year ending third quarter of 2005, payroll employment in Rhode Island grew by 1.3 percent.

**Housing markets remain strong, but changes may be underway.**

- Sales of existing Rhode Island homes, both single-family and condominiums, reached a record level in third quarter 2005, following similar strong results in the second quarter.
- Rhode Island's yearly percentage increase in existing home prices as of third quarter 2005 was 11.7 percent, much lower than the 17.0 percent increase reported in the second quarter and below the national rate of 12.0 percent (see Chart 2). This was the first time in six years that Rhode Island's home-price appreciation was lower than the nation's rate.
- Rising mortgage rates may reduce demand for new housing and refinancing activity. As of November, the 1-year adjustable rate averaged an almost four year high of 5.43



<sup>1</sup>FDIC estimates based on data supplied by the Bureau of Labor Statistics, Census Bureau, Bureau of Economic Analysis, and Moody's Economy.com.

## State Profile

percent, and the 30-year fixed rate averaged a three-year high of 6.28 percent.

**Rhode Island branch growth was the eighth fastest in the nation<sup>2</sup>.**

- With 31 percent branch growth over the past decade, Rhode Island far outpaced the rest of New England, where growth averaged 6 percent. More recently, the last five years have seen the same story, if not quite as dramatic. During this time, Rhode Island banks expanded their branch networks by 9.1 percent, well ahead of the national and regional averages of 7.7 percent and 4.6 percent, respectively.
- In the last five years, however, Rhode Island's population grew at a more moderate 3.5 percent (see Chart 3). Consequently, population per branch fell during this time. But even after a decade of branch expansion, Rhode Island still has a very high population per branch—at 4,484, it is the fifth highest in the country, suggesting that there may be room for continued branch growth.

**Rhode Island's insured institutions earnings declined sharply as income levels dropped and gains on security sales slowed.**

- Rhode Island's insured institutions reported a median return on assets of 0.42 percent as of September 30, 2005, a 22 basis point drop in the past year.<sup>3</sup> Five of the state's 11 insured institutions reported losses in the third quarter 2005. Earnings were affected by sharp declines in noninterest and net interest income resulting from significantly lower gains on the sale of securities as well as significant increases in interest expense.
- Rhode Island's insured institution NIMs have experienced a long-term general decline since peaking in the mid 1990s (see Chart 4). NIMs increased somewhat in 2004 as asset yields improved. However, late in 2004 and into 2005, funding costs began to increase and slowed the gains in the NIM.

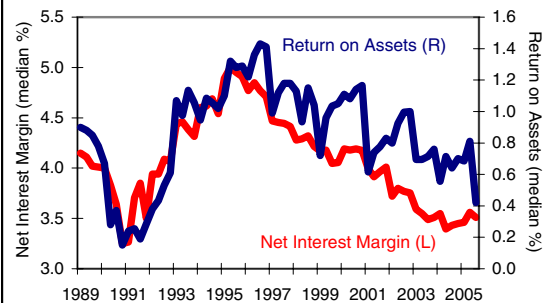
**Credit quality remains favorable in Rhode Island's insured institutions.**

- Loan quality remained strong through third quarter 2005 in Rhode Island's insured institutions. The median delinquent loan rate remained below 1 percent as of September 30, 2005 (see Chart 5). The state's high concentration of residential real estate loans, which historically have performed well, helps keep overall delinquency rates low.

**As core deposit growth has slowed, Rhode Island institutions continue to add noncore funding.**

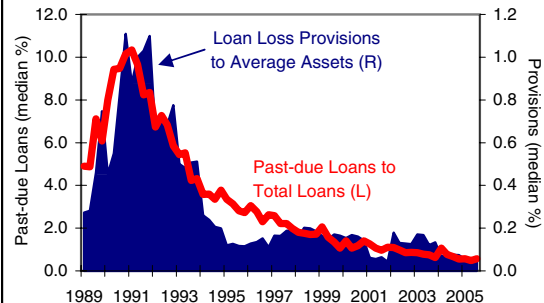
- Deposits in Rhode Island's insured institutions funded a lower percentage of assets in 2005 than historically. In 1992 the median ratio of total deposits to assets was about 89 percent; this ratio dropped to 72 percent by the end of third quarter 2005. Core-deposit funding also registered a similar decline. During this time, the median ratio of noncore funding rose from about 7 percent of assets to 26 percent (see Chart 6).

**Chart 4: Earnings and Net Interest Margins are Under Pressure in Rhode Island**



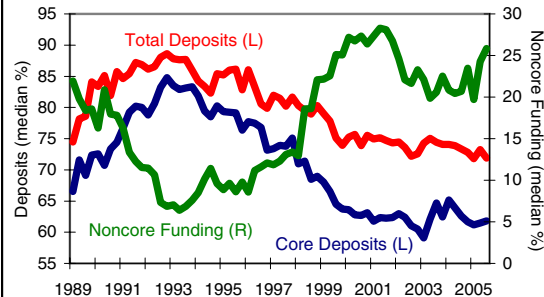
Source: FDIC, data through September 30, 2005

**Chart 5: Favorable Credit Quality Allows Low Provisions in Rhode Island's Insured Institutions**



Source: FDIC, data through September 30, 2005

**Chart 6: Deposits Continue to Decline as Noncore Funding Increases**



Note: All data shown as a percentage of total assets.  
Source: FDIC, data through September 30, 2005

<sup>2</sup>Rhode Island data has been adjusted for the 1997 merger of the affiliated Citizens Savings Bank and Citizens Trust Company, which resulted in a one-time decline of 60 offices.

<sup>3</sup>Analysis excludes specialty institutions and denovos.

## Rhode Island at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.1%	0.9%	0.9%	1.0%
Manufacturing (11%)	-4.4%	-3.2%	-1.6%	-3.0%	-5.8%
Other (non-manufacturing) Goods-Producing (4%)	2.7%	2.4%	-3.2%	0.1%	6.7%
Private Service-Producing (71%)	2.2%	1.9%	1.8%	1.8%	2.1%
Government (13%)	-0.1%	0.0%	-0.4%	-0.6%	0.2%
Unemployment Rate (% of labor force)	5.3	4.7	5.1	5.1	5.4
<b>Other Indicators</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	5.8%	6.1%	5.8%	3.8%
Single-Family Home Permits	-6.1%	-2.7%	-1.8%	-2.6%	-9.2%
Multifamily Building Permits	55.4%	-45.9%	31.1%	10.8%	26.3%
Existing Home Sales	6.7%	1.5%	5.4%	13.6%	-1.2%
Home Price Index	11.7%	17.0%	22.2%	18.7%	14.6%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.15	5.12	3.68	3.84	4.78

**BANKING TRENDS**

<b>General Information</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	14	14	15	15	15
Total Assets (in millions)	32,206	20,505	236,947	246,069	216,482
New Institutions (# < 3 years)	2	2	3	1	3
Subchapter S Institutions	2	2	2	2	2
<b>Asset Quality</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.55	0.54	0.81	0.57	0.62
ALLL/Total Loans (median %)	0.92	0.92	1.18	1.18	1.25
ALLL/Noncurrent Loans (median multiple)	3.51	5.68	2.79	3.54	2.56
Net Loan Losses / Total Loans (median %)	0.01	0.00	0.01	0.01	0.03
<b>Capital / Earnings</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	11.58	11.91	8.91	10.63	12.35
Return on Assets (median %)	0.42	0.98	0.80	0.80	1.02
Pretax Return on Assets (median %)	0.63	1.33	1.16	1.23	1.47
Net Interest Margin (median %)	3.33	3.33	3.62	3.30	3.41
Yield on Earning Assets (median %)	5.55	5.46	5.34	5.19	5.48
Cost of Funding Earning Assets (median %)	2.24	2.13	1.94	1.90	1.85
Provisions to Avg. Assets (median %)	0.05	0.05	0.05	0.07	0.11
Noninterest Income to Avg. Assets (median %)	0.95	1.14	1.25	1.23	1.41
Overhead to Avg. Assets (median %)	3.18	3.25	3.43	3.50	3.43
<b>Liquidity / Sensitivity</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	63.5	65.5	63.2	60.9	65.6
Noncore Funding to Assets (median %)	25.8	24.3	19.7	22.8	22.5
Long-term Assets to Assets (median %, call filers)	25.4	33.7	27.2	28.1	28.5
Brokered Deposits (number of institutions)	2	2	2	3	3
Brokered Deposits to Assets (median % for those above)	5.5	5.9	3.8	6.5	0.4
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	24.7	27.1	37.8	27.9	30.4
Commercial Real Estate	103.0	106.5	93.8	88.1	83.7
<i>Construction &amp; Development</i>	7.2	9.4	7.4	7.4	7.2
<i>Multifamily Residential Real Estate</i>	3.3	4.4	0.3	0.3	0.2
<i>Nonresidential Real Estate</i>	50.5	48.4	47.8	38.0	53.0
Residential Real Estate	307.2	322.4	368.3	360.6	309.2
Consumer	2.8	3.1	3.6	4.2	4.5
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Providence-New Bedford-Fall River, RI-MA	40	29,179	< \$250 million	6 (42.9%)
			\$250 million to \$1 billion	4 (28.6%)
			\$1 billion to \$10 billion	2 (14.3%)
			> \$10 billion	2 (14.3%)